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Message Text

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ACTION AF-06

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INRE-00 SSO-00 /039 W
---------- 029410
O 030859Z MAY 75
FM AMEMBASSY LAGOS
TO SECSTATE WASHDC IMMEDIATE 9560

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E.O.: 11652: N/A
TAGS: EINV, NI
SUBJ: AMERICAN INTERNATIONAL INSURANCE CO.

REF: (A) STATE 127989
(B) STATE 124720
(C) LAGOS 378

1. SUMMARY: ACCORDING NOTTINGHAM NEGOTIATIONS BETWEEN AIIC AND FMG FOR LATTER'S ACQUISITION 49 PERCENT OF COMPANY CURRENTLY AT IMPASSE. COMPANY CONSIDERS FMG'S LATEST OFFER UNACCEPTABLE BUT FMG HAS SHOWN NO WILLINGNESS MAKE FURTHER CONCESSION THAT COMPANY REQUESTING. NOTTINGHAM LEFT LAGOS FOR NEW YORK MAY 30 TO REPORT TO GREENBERG AND CONSIDER COMPANY'S NEXT MOVE. END SUMMARY.

2. IN MAY 27 MEETING WITH AMBASSADOR, NOTTINGHAM AND STATION (RESIDENT AIIC MANAGER) REVIEWED PROGRESS OF NEGOTIATIONS. FMG FIRST MADESTRAIGHT OFFER TO BUY 49 PERCENT OF COMPANY'S 28,652 SHARES AT PAR VALUE (NAIRA 2). COMPANY COUNTERED WITH REQUEST FOR NAIRA 418 PER SHARE, BASED ON VALUATION BY INDEPENDENT LONDON ACTUARY. IN FACE OF FMG'S INSISTANCE THAT IT WOULD PAY AIIC (AND OTHER FOREIGN COMPANIES) NO MORE THAN PAR VALUE AIIC SOUGHT AND OBTAINED FMG AGREEMENT TO CAPITALIZE N 394,212 HELD IN RESERVE ACCOUNT AND ISSUE ADDITIONAL SHARES TO THAT VALUE, BRINGING TOTAL NUMBER OF SHARES TO 225,758 (WITH PAR VALUE OF N 2). COMPANY ALSO OBTAINED FMG AGREEMENT FOR
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REPATRIATION OF N 200,000 THAT AICC BROUGHT INTO NIGERIA IN 1972

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TO BOOST ITS CAPITAL AND HAD NOT BEEN CARRIED AS CAPITAL SURPLUS. COMPANY ALSO HAS INDICATION FROM FMG THAT IT WILL BE ALLOWED TO RETAIN AND REPATRIATE 1974 PROFITS OF NEARLY N 800,000 SUBJECT TO USUAL REGULATIONS ON DIVIDENT REPATRIATION. FOR ITS PART COMPANYQFAS WAIVED CLAIM TO SO-CALLED FUTURE INCOME FROM ITS LIFE INSURANCE PORTFOLIO (A SPECIAL ELEMENT IN AICC CASE THAT WAS NOT PRESENT IN CASES OF OTHER EXPAT INSURANCE COMPANIES BECAUSE WITH SINGLE EXCEPTION U.S. OWNED BRITISH AMERICAN COMPANY, THESE DO NOT WRITE LIFE INSURANCE).

3. CURRENT STUMBLING BLOCK IN NEGOTIATIONS IS FMG'S REFUSAL TO REMUNERATE COMPANY FOR PRE 1974 EARNINGS THAT COMPANY RETAINED IN NIGERIA. AT END 1973 COMPANY HAD N 488,547 IN RETAINED EARNINGS AND IT SOUGHT FMG AGREEMENT TO DECLARE THESE AS DIVIDENDS AND REPATRIATE OR ELSE TO CAPITALIZE AND USE AS BASIS FOR ADDITIONAL SHARE ISSUE. COMPANY ARGUED THAT UNLIKE OTHER EXPATRIATE INSURANCE COMPANIES WHICH REPATRIATED EARNINGS ON CURRENT BASIS AIIC HAD CHOSEN TO RETAIN EARNINGS IN NIGERIA IN ORDER TO STRENGTHEN COMPANY AND IF IT WERE NOT ALLOWED TO REPATRIATE THOSE PRE 1974 EARNINGS AIIC WOULD BE RECEIVING DIFFERENT AND WORSE TREATMENT THAN OTHER EXPAT INSURANCE COMPANIES IN WHICH FMG ALSO ACQUIRING AN INTEREST. FMG HAS TAKEN AND HELD TO POSITION THAT AIIC WAS FREE TO REPATRIATE ITS PRE 1974 EARNINGS AT THE TIME AS OTHER COMPANIES DID BUT THESE RETAINED EARNINGS NOW PART OF COMPANY FINANCIAL STRUCTURE AND IT IS TOO LATE TO SEPARATE THEM OUT FOR SPECIAL TREATMENT.

4. IN MAY 24 LETTER, MINISTRY OF TRADE CONFIRMED TO AIIC THAT "THE GOVERNMENT WILL ACQUIRE 49 PERCENT THAT IS, 110,621 SHARES AT N 2.00 PER SHARE" AND ON BASIS HIS SOUNDINGS HERE LAST WEEK NOTTINGHAM BELIEVES THAT IS MINISTRY'S FINAL POSITION. NO DATE WAS SET FOR ACQUISITION HOWEVER AND IT IS NOT CLEAR TO NOTTINGHAM WHETHERAMINISTRY INTENDS NOW TO ACT UNILATERALLY TO ACQUIRE THE SHARES OR WILL AWAIT FURTHER REPRESENTATIONS FROM AIIC. IN EFFORT STAVE OFF POSSIBILITY OF FORCED ACQUISITION BY FMG STATION WROTE MINISTRY LETTER ON MAY 30 SAYING NOTTINGHAM RETURNING TO NEW YORK TO PRESENT TO STOCKHOLDERS OFFER CONTAINED IN FMG'S LETTER OF MAY 24 AND THAT HE WOULD RETURN TO NIGERIA SHORTLY TO RESUME "POSTPONED DISCUSSIONS" (THIS REFERS TO LIMITED OFFICIAL USE

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MEETING THAT NOTTINGHAM HAD SCHEDULED FOR MAY 23 WITH PERM SEC IN MINISTRY OF TRADE BUT THAT LATTER CANCELLED).

5. ACCORDING TO NOTTINGHAM, MOST RECENT EXCHANGES WITH MINISTRY HAVE BEEN STERILE AFFAIRS IN WHICH EACH SIDE SIMPLY RESTATED ITS POSITION AND HE CONSIDERS NGOTIATIONS EFFECTIVELY AT AND END. HE BELIEVES MINISTRY READY TO PROCEED WITH COMPULSORY ACQUISITION OF SHARES AND IN HIS VIEW ONLY QUESTION

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REMAINING IS WHETHER FEDERAL EXECUTIVE COUNCIL TO WHICH HE
UNDERSTANDS MINISTRY HAS SUBMITTED CASE WILL APPROVE THAT
COURSE. ACCORDING NOTTINGHAM, ALTHOUGH AIIC ACCEPTS FMG'S
RIGHT TO ACQUIRE 49 PERCENT OF SHARES AND IS WILLING TO
SELL TO FMG, AIIC CANNOT ACCEPT MINISTRY'S CURRENT TERMS AND
IN EVENT OF COMPULSORY ACQUISITION ON THOSE TERMS, WILL MAIN-
TAIN THAT ACQUISITION AMOUNTS TO EXPROPRIATION WITHOUT ADEQUATE
COMPENSATION. NOTTINGHAM QUESSES THAT AIIC WOULD REACT BY
TERMINATING ITS OPERATIONS IN NIGERIA AND PURSUING CLAIM FOR
COMPANSATION AGAINST GOVERNMENT. FYI JUST BEFORE HE LEFT
NOTTINGHAM ALSO FLOATED IDEA OF VOLUNTARY LIQUIDATION OF
EXISTING AIIC COMPANY IN NIGERIA AND TRANSFER OF ITS LIFE
PORTFOLIO TO NEW COMPANY THAT AIIC MIGHT FORM WITH NIGERIAN
BUSINESS GROUP AND IN WHICH AIIC WOULD HAVE MINORITY INTEREST.
END FYI.

6. SIDE ISSUE IN SITUATION CONCERNS AIIC GRANTING OF OPTIONS
TO NIGERIANS, CHIEF AWOLOWO AND CHIEF OGUNBANJO TO BUY 5
PERCENT EACH OF COMPANY'S SHARES ONCONDITIONHOWEVER THAT
FMG ACQUISITION AND EXERCISE OF CHIEF'S OPTIONS STILL LEFT
COMPANY WITH 51 PERCENT. TWO CHIEFS STILL TRYING TO PERSUADE
MINISTRY TO LIMIT ITS ACQUISITION TO 39 PERCENT BUT THIS ISSUE,
ALTHOUGH LIVE ONE, DOES NOT DIRECTLY AFFECT COMPENSATION ISSUE.

7. IN CONVERSATION WITH AMBASSADOR, NOTTINGHAM DID NOT SOLICIT
EMBASSY INTERVENTION; HE WISHED TO AWAIT HIS CONSULTATIONS
IN NEW YORK. HOWEVER, HE SAID HE WOULD APPRECIATE ANY
INFO EMBASSY COULD DEVELOP ON FEC REACTION TO CASE, AND
ON ASSUMPTION FMG OFFICIALS MIGHT NOT REALIZE EXTENT OF
UNFAVORABLE REACTION THAT COMPULSORY ACQUISITION COULD
ENGENDER IN U.S., HE THOUGHT IT WOULD BE HELPFUL IF EMBASSY
COULD FIND OPPORTUNITY TO GET ACROSS TO SELECTED FMG
REPRESENTATIVES INDICATION OF DAMAGE THAT SUCH ACTION MIGHT
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DO TO NIGERIAN IMAGE. AMBASSADOR EXPRESSED HIS CONCERN NOT
ONLY FOR AIIC PREDICAMENT BUT ALSO ABOUT OVERALL IMPACT ON
U.S.-NIGERIAN BUSINESS RELATIONS IF SITUATION COULD NOT BE
AMICABLY RESOLVED AND AGREED THAT IF OPPORTUNITY AROSE WITH
APPROPRIATE NIGERIAN OFFICIALS, HE WOULD RAISE SUBJECT
IN THOSE TERMS. HE ASKED THAT AIIC KEEP EMBASSY POSTED ON
DEVELOPMENTS AND NOTTINGHAM AND STATON AGREED.
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